Rio Alto Exploration Ltd.

Annual Report

1999

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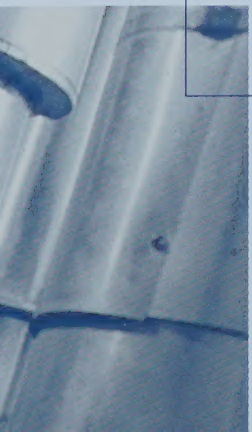
The Annual Meeting of Shareholders will be held at 3:00 p.m. on Thursday, May 25, 2000 in the McMurray Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

Corporate Profile – Rio Alto Exploration Ltd.

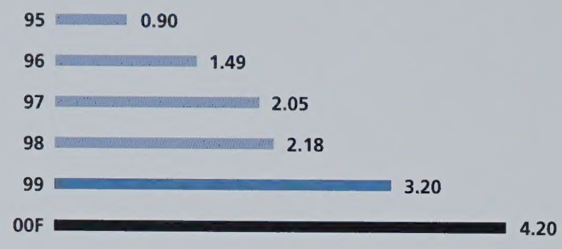
Rio Alto Exploration Ltd. is a Calgary, Alberta based exploration and production company focused on natural gas, operating in two core areas in western Canada. Since its inception, the Company has steadily increased production through strong asset development and management, strategic acquisitions and a consistent emphasis on cost control. In its 12th year of operations, Rio Alto continues to maintain its commitment to efficient operations, high working interests, operatorship and consistent low-cost growth inside familiar geologic and geographic boundaries achieved with a team of experienced employees.

Rio Alto is listed on the Toronto Stock Exchange, trading under the symbol "RAX".

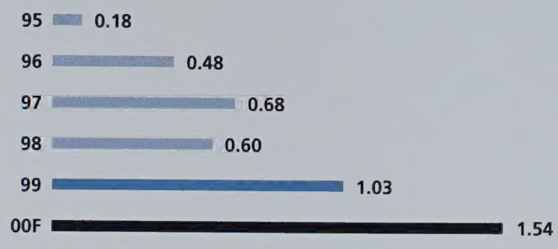
For 12 consecutive years, Rio Alto has completed aggressive acquisition, exploration and development programs while leading the industry in low-cost operations, ensuring per unit costs remain enviably low.



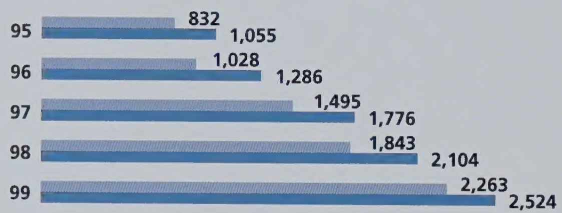
Financial and Operating Highlights



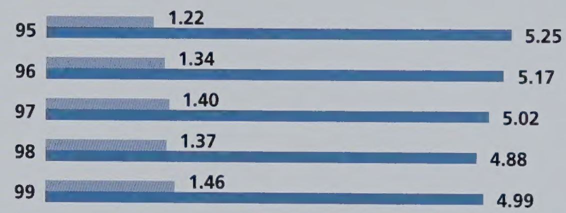
Cash Flow Per Share ($)



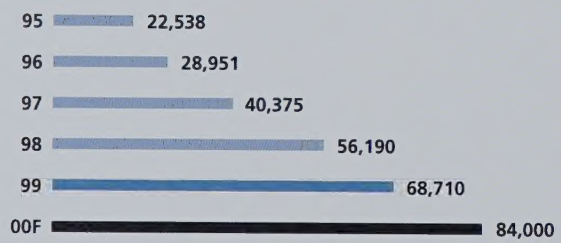
Net Income Per Share ($)



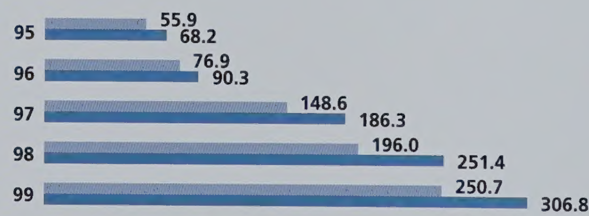
Undeveloped Land (thousands of acres)
Net
Gross



Unit Operating Costs ($/boe @ 6:1)
Natural Gas
Liquids



Net Production (boe/d @ 6:1)



Reserves (mmboe @ 6:1)
Proven
Proven and Probable

Financial Highlights

($thousands, except per share amounts)	1999	1998	%Change
Revenue	**392,343**	247,507	59
Cash flow	**218,186**	135,624	61
Per share	**3.20**	2.18	47
Net income	**70,398**	37,208	89
Per share	**1.03**	0.60	72
Capital expenditures			
Land acquisitions and retention	**25,550**	24,644	4
Exploratory seismic	**19,328**	14,993	29
Acquisitions	**157,737**	206,795	(24)
Proceeds on disposition	**(2,449)**	(1,035)	137
Exploration and development	**197,994**	142,195	39
Total	**398,160**	387,592	3
Long-term debt, net of working capital	**524,756**	470,117	12
Shareholders' equity	**605,026**	421,676	44
Weighted average number of common shares outstanding (thousands)	**68,155**	62,118	10

Operating Highlights

	1999	1998	% Change
Production			
Natural gas (mcf/d)	**365,100**	299,600	22
Oil and NGLs (bbls/d)	**7,860**	6,257	26
Average sales price			
Natural gas ($/mcf)	**2.50**	1.98	26
Oil and NGLs ($/bbl)	**20.90**	14.29	46
Operating costs			
Natural gas ($/mcf)	**0.24**	0.23	4
Oil and NGLs ($/bbl)	**4.99**	4.88	2
Combined basis ($/boe@6:1)	**1.87**	1.76	5
Reserves – proven plus probable			
Natural gas (bcf)	**1,520**	1,263	20
Oil and NGLs (mbbls)	**53,454**	40,942	31
Wells drilled			
Gross	**110**	148	(26)
Net	**100.9**	131.3	(23)
Land holdings			
Gross (thousands of acres)	**3,595**	3,009	19
Net (thousands of acres)	**3,111**	2,523	23

Report to Shareholders

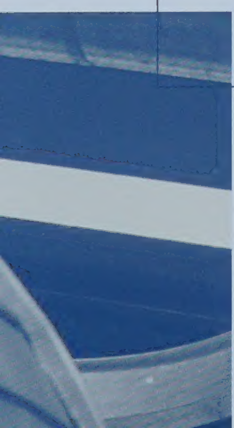
Rio Alto Exploration experienced another year of success in 1999. While the industry struggled under difficult economic conditions, Rio Alto's experienced management team, operating discipline and financial strength gave the Company a new level of critical mass to execute its programs. Major acquisitions completed in the Company's two core areas early in the year set the stage for the largest winter drilling and development program in Rio Alto's history. In fact, the 1999 – 2000 winter drilling program of 169 wells was almost twice the size of the Company's program the previous year.

This year of aggressive activity resulted in significant gains in production, cash flow and earnings for Rio Alto. By the end of December 1999, natural gas production had averaged 365.1 million cubic feet per day, a 22 percent increase over 1998, and crude oil and liquids production grew 26 percent to 7,860 barrels per day. On a combined basis, production reached 68,710 barrels of oil equivalent, 22 percent over 1998 levels.

Throughout the year, Rio Alto maintained its strong emphasis on natural gas, which represented 89 percent of total production. Although crude oil prices remained low for a good part of the year, natural gas prices were firm as access to and demand from higher-priced North American markets opened up via infrastructure upgrades. Rio Alto's emphasis on balanced marketing in this environment allowed the Company to capitalize on the commodity price increases with minimal risk. In 1999, Rio Alto averaged $2.50 per thousand cubic feet for natural gas and $20.90 per barrel for crude oil and liquids. These improved prices combined with substantial production growth increased Rio Alto's 1999 cash flow to $218.2 million, 61 percent over 1998. On a per share basis, 1999 cash flow reached $3.20, a 47 percent increase over the previous year. Earnings reached $70.4 million, almost double that of 1998 while earnings per share increased 72 percent to $1.03 in 1999. In each of these measures, Rio Alto met its aggressive targets set at the start of the year.

Rio Alto achieved substantial growth in 1999 through both the drill bit and strategic acquisitions in its two core areas. Four major properties adjoining existing Rio Alto operations were acquired during the year. Together with extensive Crown land purchases, the Company added over 588,000 net acres and 46 million cubic feet per day of natural gas equivalent production. Acquisitions at Kettle River, Janvier, Cowpar, Hardy, North Thornbury and Tweedie complemented existing Company properties in Northeast Alberta. Additional acquisitions in the Northwest Alberta core area extended our Edson field to the north with the purchase of the Galloway property. By year end the Company's net land holdings totalled 3,111,300 acres, 23 percent more than year end 1998. Over two-thirds (72 percent) of the Company's net land base is undeveloped land, including one million acres in Northeast Alberta and 1.26 million acres in the Northwest core area.

In winter 1999-2000, Rio Alto completed the largest drilling program in the Company's history, drilling a total of 169 wells and achieving a success rate of 78 percent.



Working with a solid prospect inventory, Rio Alto strongly emphasized drilling and development activities in 1999. The majority of the Company's drilling activity takes place in the winter season, which runs November to March. As a result, the year began strongly with 69 wells drilled in the first quarter. During the second and third quarters, the Company carried out drilling and operations programs, comprising 21 additional wells. For the remainder of 1999, Rio Alto focused on tying in wells and laying the groundwork for the 1999 - 2000 winter drilling season. Careful planning ensured the Company booked the necessary drilling services well in advance of the industry demand that resulted from the swift rise in oil prices later in the year. Access to drilling rigs and equipment prior to its critical activity season enabled an early program start which resulted in the largest summer/fall and fall/winter drilling programs to date. Overall, the Company drilled a total of 110 wells (100.9 net) in 1999, with an average success rate of 76 percent.

Drilling and acquisitions in 1999 increased Company proven reserves by over 80 million barrels of oil equivalent. The Company enforces strict internal controls for reserves assessment and uses an independent external engineering firm to evaluate 100 percent of its asset base each year to ensure complete objectivity. The same reserves evaluation firm, NRG Engineering Ltd., has been assessing and auditing Rio Alto's reserves for the past decade.

Because of the large early winter development drilling program completed in late 1999, Rio Alto's finding and development costs were $4.98 per barrel of proven reserves, lower than the more acquisition-intensive year of 1998.

Rio Alto's continued growth is, and will continue to be, achieved with ongoing attention to the Company's strict operating principles:

- Control costs at all levels;
- Achieve low-risk growth by focusing on defined geological horizons within two core areas;
- Operate production;
- Maintain high working interests;
- Follow a well-defined debt strategy; and,
- Minimize finding and development costs through disciplined exploitation and strategic acquisitions.

Rio Alto's experienced employees ensure these principles are carried out in every one of the Company's field and head office activities. By empowering management and staff and facilitating a project management approach to production, Rio Alto ensures that staff at all levels are adding value to the Company every day by finding ways to build, manage, administer, produce and market at the lowest cost.

Rio Alto's focus on particular geological horizons plays an important role in the Company's growth strategy. Any outward growth or acquisitions are made based on the intention to maximize benefits through our existing expertise in exploring those geological horizons.

Because of the aggressive property acquisition and exploration strategy Rio Alto has pursued over the past two years, the Company now holds a significant inventory for drilling and development.

For 2000, Rio Alto expects to increase total production 22 percent over 1999 levels, to average 446 million cubic feet per day of natural gas and about 9,670 barrels per day of crude oil and liquids. Production gains will be achieved through implementation of the Company's development plans for drilling and exploitation of area inventories. By the end of the first quarter of 2000, Rio Alto already substantially completed its winter drilling program, drilling 166 wells. With a success rate of 77%, the Company is well on the way to meeting its targets.

Based on a budgeted average natural gas price of $2.75 per thousand cubic feet, and a crude oil and natural gas liquids price of $22.00 per barrel, cash flow is anticipated to reach $303 million in 2000, or $4.20 per share. With that level of cash flow, Rio Alto expects to exit 2000 with a debt to cash flow ratio of 1.75:1, compared to 2.54:1 in 1999.

Rio Alto has succeeded over the past 12 years by maintaining a controlled approach to growth. With careful planning, strategic thinking and strict monitoring of costs, the Company has reached the ranks of the senior producers. The Company continues to expand the Northwest Alberta core area operations, positioning the region as the engine of growth in the forseeable future. Beyond that, as part of its long-term growth strategy, Rio Alto has always carried out growth-sustaining initiatives. Currently, the Company has teams committed to the research and development phase of additional development focus areas, including extension of our traditional gas-prone regions, thermal heavy oil production opportunities, and small-scale international development. Within the current year, budget allocation to these non-core projects will not exceed ten percent of the total program.

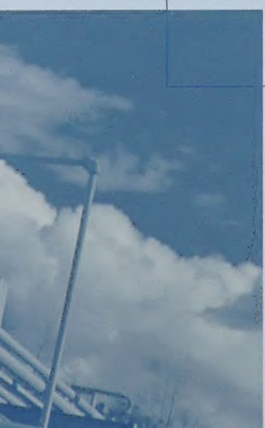
A strategic executive shift, which took place during mid-1999, saw a number of long-time Rio Alto employees promoted for their management, financial and technical strengths. This shift expands Rio Alto's management team with skilled people who have been involved in the growth of the Company over the years. This team, along with Rio Alto's dedicated staff and Board of Directors, will continue to be instrumental in the Company's strategic development and growth in 2000 and beyond. On behalf of the Rio Alto team, we thank shareholders for their ongoing loyalty and support, which allows the Company to pursue aggressive growth while maintaining our consistent strategy of cost control.

On behalf of the management team and Board of Directors,

Richard T. Cones
President and Chief Executive Officer

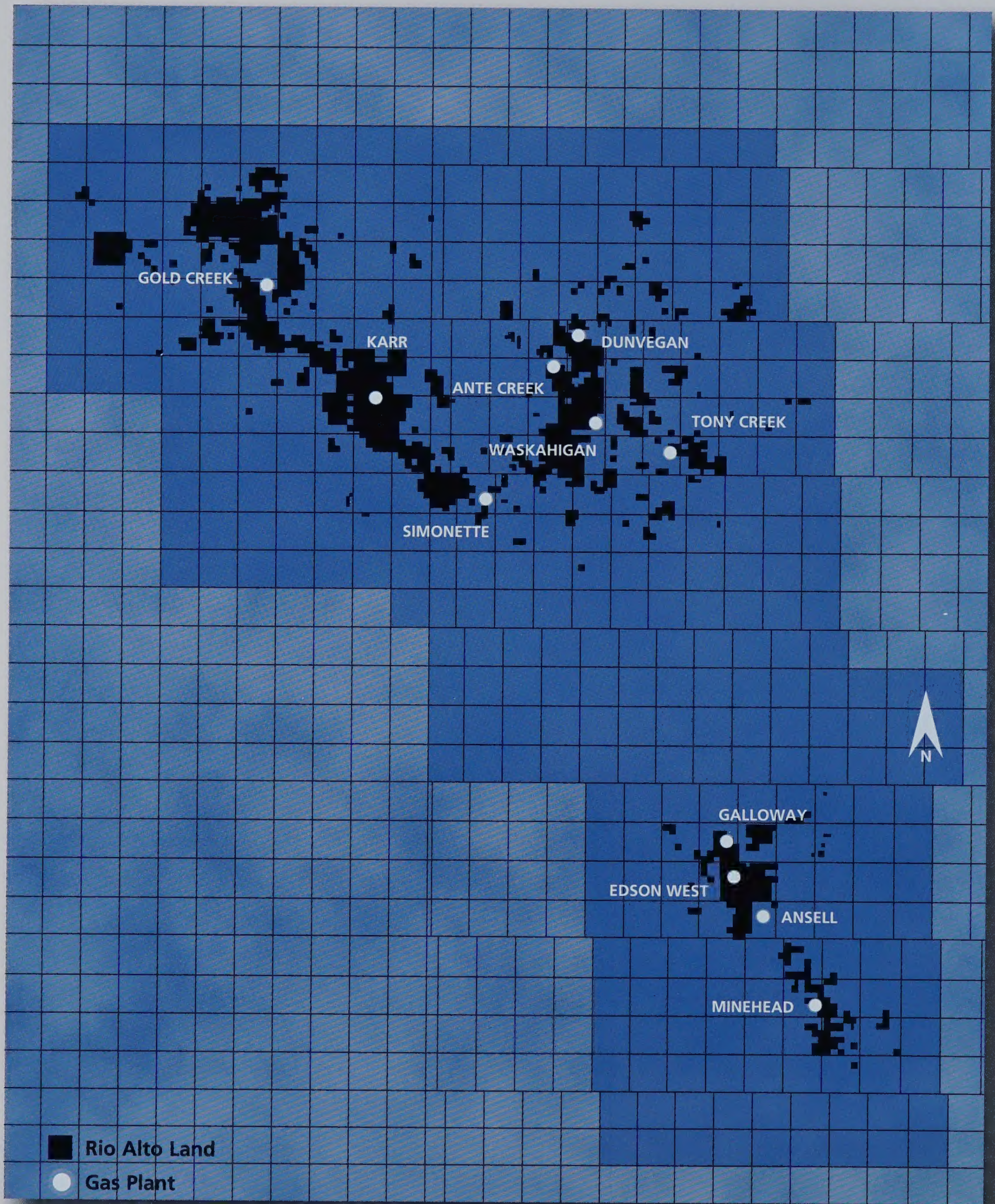
February 29, 2000

Rio Alto's commanding position in two strong core areas in Alberta gives the Company an extensive list of opportunities for low-cost growth.



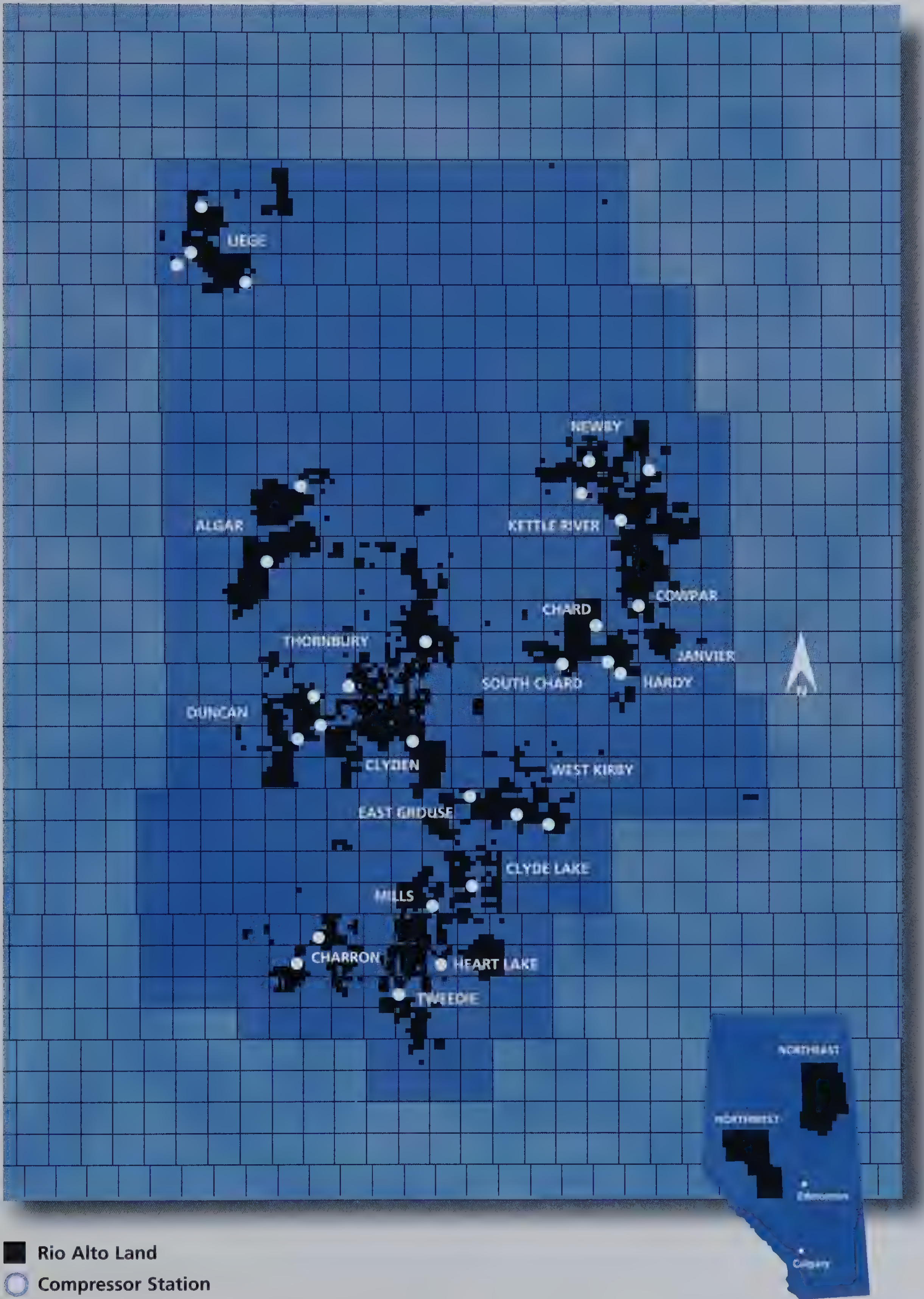
Review of Operations

Northwest Alberta



Rio Alto currently manages operations in two core areas. These operations include: 30 producing properties, 11 gas plants and 41 compressor stations, and a strong prospect inventory with more than 2.2 million net acres of undeveloped land in Alberta.

Northeast Alberta



Northwest Alberta

The Northwest Alberta core area provides Rio Alto with natural gas, crude oil and natural gas liquids production, and significant growth opportunities due to the multiple geological horizons in the region. Rio Alto's continued emphasis on operatorship is clearly evident in the Northwest, where the Company operates 11 gas plants and 11 compressor stations. The Company's average working interest in the area is 74 percent, providing extensive control over operating costs and processes.

The Northwest was the site of aggressive development in 1999, encompassing drilling, completions and complementary acquisitions. In total, 271,000 net undeveloped acres of land and 1,500 barrels of oil equivalent production were added to the Northwest core area through acquisitions and Crown land purchases in 1999. Many of the Company's property acquisitions were made in the first half of the year, when industry activity and land prices were at their lowest.

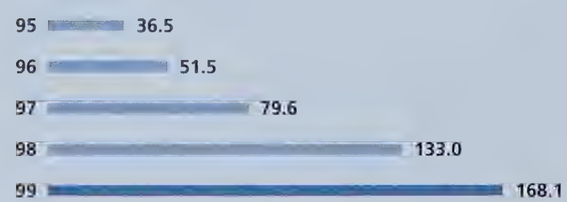
A significant acquisition completed in the second quarter gave Rio Alto a new property base at Galloway. This extension of the Edson Cardium trend added more than 22,000 net undeveloped acres to the Company's land base and increased production by 1,300 barrels of oil equivalent per day. Additional acquisitions completed in the first half of the year added almost 29,500 net undeveloped acres of land at Gold Creek, Karr and Edson. In the third quarter, two additional acquisitions in the Karr and Edson areas, enhanced the Company's land position a further 20,000 net undeveloped acres, while Crown land purchases completed throughout the year added over 221,000 net undeveloped acres. As a result of these acquisitions, Rio Alto's year end Northwest land position stood at 1,256,000 net undeveloped acres.

To capitalize on its acquisitions, Rio Alto began an extensive drilling program in the latter part of 1999. The Company's capital spending in the Northwest core area totalled approximately $250 million of which $170 million was dedicated to exploration, development and drilling activities in the region, representing 78 percent of Rio Alto's exploration and development expenditures for the year. An early start on winter in the Northwest enabled the Company to drill 21 wells by the end of 1999. Of the remaining 71 wells to complete the winter program all were drilled in early 2000 for an overall success rate of 79 percent on the 1999/2000 winter drilling program. Key facility expansions in 1999 at Crooked Lake, Karr, Edson and Galloway were the result of these significant development efforts. To support the area's future exploration and development efforts, the Company shot 2,318 kilometers of 2D and 809 square kilometers of 3D seismic over the 1999-2000 winter season, up from 1,041 kilometers of 2D and 152 square kilometers of 3D in 1998-1999.

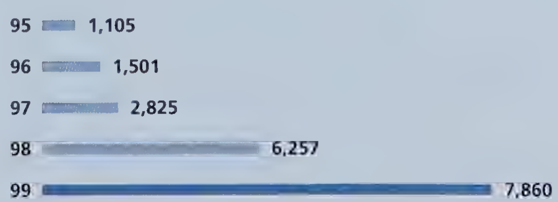
The Northwest's strong acquisition and drilling program grew both natural gas, and crude oil and natural gas liquids production in the area by 26 percent in 1999. The Company's annual average production from Northwest Alberta reached 168 million cubic feet per day of natural gas and 7,860 barrels per day of crude oil and natural gas liquids. The area's largest producing properties were Edson, Karr and Waskahigan/Ante Creek, with 29 percent of the Company's total net gas production.

Rio Alto is planning approximately $200 million in capital expenditures for the Northwest Alberta area in 2000 or 80 percent of the planned development program budget. The funds will be used primarily for exploration and drilling activities to complete the winter drilling program and follow up on the Company's acquisitions of 1999. The Edson/Galloway area will continue to be an area of significant focus in 2000. Additional areas of growth will include Karr, Gold Creek, Dunvegan and Crooked Lake, where new facilities have been or will be constructed.

The Northwest Alberta core area currently contributes 60 percent to Rio Alto's total production mix, an ever-increasing percentage that firmly establishes this region as the Company's engine for future growth.



Northwest Alberta Net Natural Gas Production (mmcf/d)



Northwest Alberta Net Oil & NGL Production (bbls/d)

Northwest Alberta Natural Gas Production

Annual Average (mmcf/d)	1999	% of company total	1998	% of company total
Karr	**36.1**	9.9	33.6	11.2
Edson/Galloway	**34.6**	9.5	20.9	7.0
Ante Creek/Waskahigan/Simonette	**34.0**	9.3	36.6	12.2
Gold Creek	**21.0**	5.8	11.8	3.9
Dunvegan/Tony Creek	**19.5**	5.3	17.4	5.8
Minehead/Peco	**9.2**	2.5	5.7	1.9
George/Worsley	**5.3**	1.4	0.2	0.1
Bigstone/ Kaybob/ Crooked Lake	**3.2**	0.9	1.1	0.4
Miscellaneous	**5.2**	1.4	5.7	1.9
Total	**168.1**	46.0	133.0	44.4

Northwest Alberta Oil & NGL Production

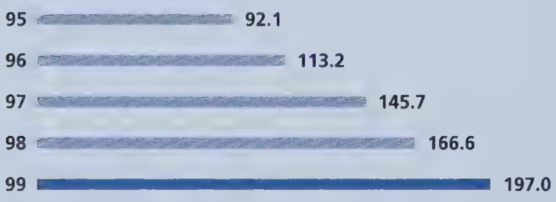
Annual Average (bbls/d)	1999	% of company total	1998	% of company total
Karr				
Oil	**72**	0.9	60	1.0
NGLs	**2,181**	27.8	2,006	32.1
Edson/Galloway				
Oil	**110**	1.4	74	1.2
NGLs	**1,478**	18.8	1,022	16.3
Gold Creek				
Oil	**213**	2.7	79	1.3
NGLs	**1,230**	15.6	972	15.5
Ante Creek/Waskahigan/Simonette				
Oil	**655**	8.3	501	8.0
NGLs	**612**	7.8	592	9.5
Minehead/Peco				
Oil	**23**	0.3	–	–
NGLs	**519**	6.6	299	4.8
Dunvegan/Tony Creek				
Oil	**44**	0.6	35	0.6
NGLs	**351**	4.5	254	4.1
Bigstone/Kaybob/Crooked Lake				
Oil	**–**	0.0	–	0.0
NGLs	**51**	0.6	18	0.3
Miscellaneous				
Oil	**92**	1.2	71	1.1
NGLs	**229**	2.9	273	4.4
Total	**7,860**	100.0	6,257	100.0

Rio Alto's experience in the deep horizons and complex geography of Northwest Alberta allowed the Company to make significant gains in natural gas and crude oil and liquids production in 1999.

Northeast Alberta

Rio Alto's Northeast Alberta core area is a prolific region of 19 producing fields with 30 compressor stations operated by the Company. This area is particularly suited to Rio Alto's low-cost operating strategies, given its shallow natural gas horizons which can be drilled quickly and economically. Rio Alto's average working interest in the area is 85 percent. The Company is striving to increase its operatorship and net production levels even further through consolidation while conducting significant drilling and development programs.

In 1999, Rio Alto gained increased natural gas volumes and undeveloped land holdings through strategic acquisitions. Major acquisitions totalling $100 million were completed at Tweedie, Kettle River, Janvier, Cowpar and Hardy in the first quarter of 1999 and at North Thornbury in the fourth quarter. These transactions netted Rio Alto over 190,000 net acres of land and 43.5 million cubic feet per day of natural gas production volumes. With Crown land purchases of almost 41,000 net acres, Rio Alto expanded its land base in Northeast Alberta by 17 percent in 1999 to year end holdings of 1,007,000 net undeveloped acres. The Company continues to have a major operating presence in this region and will continue to add incremental production volumes.



Northeast Alberta Net Natural Gas Production (mmcf/d)

The Company's Northeast Alberta 1999 – 2000 shallow gas drilling program planned for a total of almost 80 wells to be drilled during the winter season. The start of the Northeast drilling program was delayed until the beginning of the first quarter of 2000 due to the unseasonably warm weather in late 1999, however, the Company was still able to execute its plans for the Northeast within the first quarter of 2000. To increase its rate of drilling success, Rio Alto made use of a $10 million seismic data program shot in 1999. Throughout 1999, facility upgrades, were completed at Liege, Duncan and Janvier/Hardy. Further facility expansions were carried out in the first quarter 2000 at Liege where two additional compressors were installed.

Activity in the Northeast during 1999 produced net average volumes of 197 million cubic feet per day of natural gas, an 18 percent increase over 1998. Rio Alto's highest producing properties in the region include Duncan/Thornbury/Clyden, Newby/Kettle River and Liege contributing 30 percent of the Company's total net gas production.

For 2000, Rio Alto is planning capital expenditures of over $50 million in Northeast Alberta, which will be directed towards exploration and drilling programs. Acquisition of lands that complement and expand existing properties will continue to be part of our ongoing strategy in the region.

Northeast Alberta Natural Gas Production

Annual Average (mmcf/d)	1999	% of company total	1998	% of company total
Duncan/Thornbury/Clyden	**46.6**	12.7	47.6	15.9
Newby/Kettle River	**32.0**	8.8	20.7	6.9
Liege/Grew	**30.2**	8.3	29.8	9.9
West Kirby/ Wiau Lake/ Grouse	**17.5**	4.8	19.4	6.5
Cowpar	**15.6**	4.3	–	–
Mills/Tweedie/Heart Lake	**15.2**	4.2	16.0	5.3
Chard/Chard South	**15.1**	4.1	16.2	5.4
Janvier/Hardy	**10.1**	2.8	–	–
Algar	**8.5**	2.3	9.7	3.2
Miscellaneous	**6.2**	1.7	7.2	2.5
Total	**197.0**	54.0	166.6	55.6

Rio Alto expanded its holdings in the Northeast Alberta core area in 1999, where shallow horizons offer low-risk and inexpensive opportunities for natural gas production growth.

Management's Discussion And Analysis

Overview

Rio Alto's consistent and ongoing focus on low-cost growth resulted in significant financial and operating gains again in 1999. The Company saw increases in all financial areas – revenue, cash flow and earnings – due to successful development programs as well as higher commodity prices while keeping strict control of costs.

Throughout the year, a combination of complementary strategic acquisitions and successful drilling activity grew production, land holdings and reserves. The Company's high levels of activity and success have positioned Rio Alto with a strong production base, a solid undeveloped land portfolio and a sizeable inventory of prospects. By leveraging these assets, particularly in the current buoyant energy market, Rio Alto will achieve significant growth again in 2000.

Land

In 1999, Rio Alto increased its total net land position by 23 percent through an aggressive acquisition program. Acquisitions made up 41 percent of the additions, while the remainder were achieved through Crown land sales. Current total net holdings are 3.1 million acres, of which 2.26 million acres are undeveloped. For the second year in a row, the highest increase in land holdings occurred in the Northwest core area, where Rio Alto added 320,000 net acres. This brings the Company's holdings to an almost even split between the regions as Northwest inventories continue to grow rapidly.

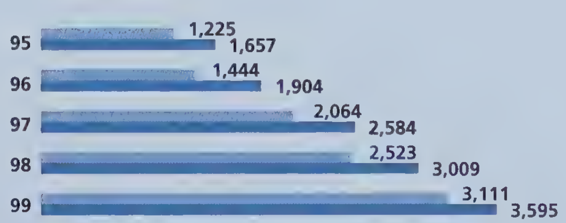
1999 Land Summary

(Thousands of acres)	Northwest		Northeast		Company Total	
	Gross	Net	Gross	Net	Gross	Net
Developed	353	254	718	594	1,071	848
Undeveloped	1,407	1,256	1,117	1,007	2,524	2,263
Total	1,760	1,510	1,835	1,601	3,595	3,111

Drilling

Drilling remained a high priority for Rio Alto in 1999. A total of 110 wells (100.9 net) were drilled, compared to the 148 (131.3 net) total wells drilled in 1998. With the corporate growth focus continuing to shift to the Northwest where horizons are deeper than in the Northeast, the average depth drilled per well increased by 15 percent over 1998. In total, the Company achieved a net success rate of over 75 percent, consistent with 1998 results and well within the Company's target range.

The winter 1999-2000 drilling program is Rio Alto's largest to date. The drilling season began in November in the Northwest core area, but was delayed in the Northeast until early 2000 because of unseasonably warm weather in the region.



Total Land (thousands of acres)

Net

Gross

Once again, natural gas drilling accounted for the majority of the Company's program. A total of 82 successful gas wells were drilled, compared to two successful oil wells. With growing expertise in the drilling of horizontal wells, this year's program includes the largest number of horizontal wells to date, the majority being drilled in the Northeast.

In the Northwest, Rio Alto drilled a total of 71 wells (63.3 net) in 1999, resulting in 50 gas wells and two oil wells. A net success ratio of 75 percent was reached in the Northwest which was consistent with the Company's historical performance in the region. This drilling contributed substantially to the increase in both natural gas and oil and natural gas liquids production by 26 percent. In the Northeast, the Company drilled 39 wells, yielding 32 gas wells including horizontal tests with a net success rate of 82 percent, again on track with past years. This activity helped grow production in this natural gas area by 30 million cubic feet or 18 percent over 1998 volumes.

Number of Wells Drilled

	Gross	Net	Net Success %
1995	113	98.8	82.3
1996	108	96.0	84.2
1997	189	169.1	80.7
1998	148	131.3	75.3
1999	110	100.9	75.1

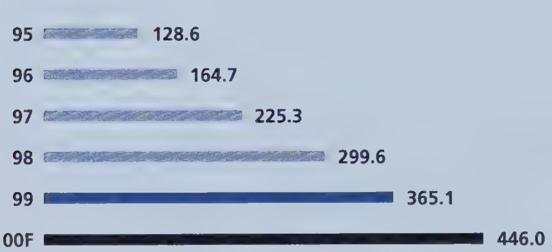
Annualized Drilling Results

	1999		1998	
(Wells)	Gross	Net	Gross	Net
Gas	82	**74.4**	112	97.0
Oil	2	**2.0**	1	1.0
Service	–	–	1	0.8
Dry and abandoned	26	**24.5**	34	32.5
Total	110	**100.9**	148	131.3
Success Rate (%)	76	**75.7**	77	75.3

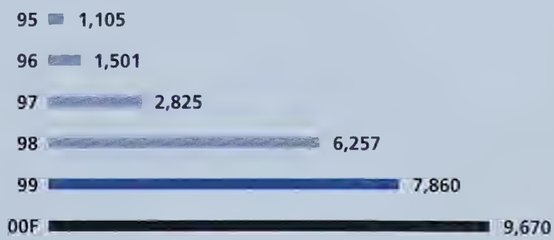
Production

Total net production in 1999 increased 22 percent , matching the Company's target volume of 68,700 barrels of oil equivalent set at the beginning of the year.

Rio Alto continued to follow its consistent natural gas focused strategy in 1999, with a resulting product mix of 89 percent natural gas and 11 percent crude oil and natural gas liquids. On average, natural gas production grew 22 percent over 1998 levels, reaching 365 million cubic feet per day in 1999. Production of natural gas was split between the Northwest's 46 percent and the Northeast's 54 percent contributions. For 2000, Rio Alto is targeting natural gas production volumes of 446 million cubic feet per day, to be split fairly evenly between the Company's two core areas, approximately 55 percent in Northwest Alberta and 45 percent in Northeast Alberta.



Natural Gas Production (mmcf/d)



Oil & NGL Production (bbls/d)

Crude oil and natural gas liquids production, derived entirely in the Northwest, rose 26 percent to 7,860 barrels per day in 1999. As the Company continues to pursue the Northwest core area's liquids-rich reserves, Rio Alto will continue to grow its production of natural gas liquids, currently six percent of total production. In 2000, the Company expects crude oil and natural gas liquids production to average 9,670 barrels per day.

Reserves

Rio Alto's total proven reserves increased 28 percent over 1998 to 250.7 million barrels of oil equivalent, with proven plus probable reserves totalling 306.8 million barrels of oil equivalent, based on an independent reserve evaluation of all of the Company's properties by NRG Engineering Ltd. The reserve replacement ratio in 1999 was 319 percent, compared to 331 percent in 1998, as the Company continues to more than replace produced reserves.

Proven natural gas reserves grew 27 percent to 1,274 billion cubic feet, while proven plus probable reserves reached 1,520 billion cubic feet, 20 percent over 1998 levels.

Proven crude oil and natural gas liquids reserves grew 31 percent over 1998 to 38.4 million barrels. Proven plus probable crude oil and natural gas liquids reserves reached a total of 53.4 million barrels by year end, an increase of 31 percent over last year.

Reserve additions were accomplished through a combination of drilling and acquisitions in 1999. Major acquisitions were completed at Kettle River, Janvier, Cowpar, Hardy, North Thornbury and Tweedie in Northeast Alberta and at Galloway in the Northwest core area. Rio Alto's 1999 finding and development costs were $4.96 per barrel of proven plus half probable oil equivalent reserves, slightly above the Company's three year average of $4.65.

Natural Gas Reserves

(bcf)	Proven	Probable	Total
1995	318	66	384
1996	436	69	505
1997	772	178	950
1998	1,000	263	1,263
1999	1,274	246	1,520

Oil & NGLs Reserves

(mbbls)	Proven	Probable	Total
1995	2,925	1,260	4,185
1996	4,228	1,949	6,177
1997	19,913	8,036	27,949
1998	29,279	11,663	40,942
1999	38,402	15,052	53,454

Marketing

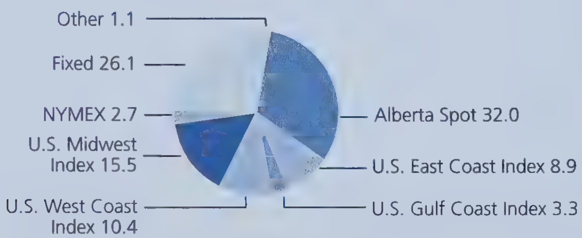
Rio Alto maintains a diversified marketing portfolio including sales to traditional aggregators, direct sales into export markets, fixed price sales as well as short term intra-Alberta sales. Rio Alto utilizes financial instruments to provide downside price protection while maintaining as much upside price potential as possible, thus ensuring optimal natural gas pricing.

Despite warm weather over the past several winter seasons, natural gas prices have remained relatively strong and are in fact currently trading at near record high levels. In 1999, Rio Alto achieved an average price of $2.50 per thousand cubic feet, 26 percent higher than realized in 1998 and 11 percent higher than the Company's budget price of $2.25 per thousand cubic feet. For 2000, Rio Alto is conservatively estimating an average natural gas price of $2.75 per thousand cubic feet. This forecast is based on positive market factors, including increased export pipeline capacity to US markets (the Alliance pipeline) as well as increasing North American demand, especially in the area of natural gas fired electrical power generation. These factors will ensure that gas produced in Western Canada will enjoy full participation in a strong North American gas market.

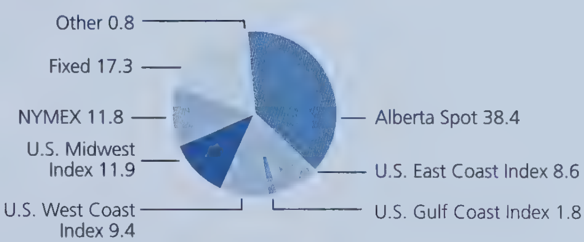
Rio Alto markets its oil and natural gas liquids under short term arrangements which allow for maximum flexibility without compromising price performance. In early 1999, oil prices were extremely low, but began recovering during the second half of the year, becoming strong by year end.

Rio Alto realized a blended average price for all liquids production of $20.90 per barrel in 1999, a full 46 percent stronger than 1998 prices and 39 percent above the Company's budget price of $15.00 per barrel. Rio Alto is conservatively estimating an average blended price for crude oil and natural gas liquids production of $22.00 per barrel during calendar 2000.

1999 Gas Sales Portfolio (%)

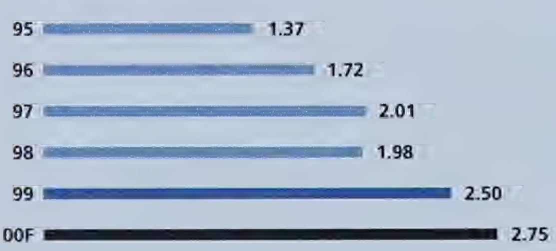


2000 Gas Sales Portfolio (%)

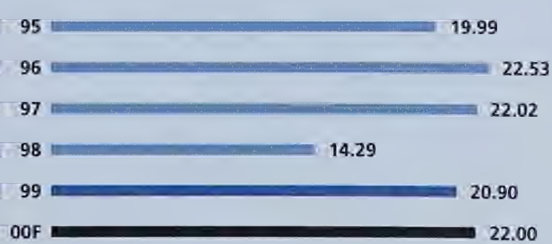


Revenue

Revenue grew significantly in 1999 through a combination of increased production and the strongest natural gas prices the Company has seen in its history. Combined production growth of 22 percent, natural gas prices of $2.50 per thousand cubic feet and crude oil and natural gas liquids prices of $20.90 resulted in a 59 percent rise in revenue in 1999 to $392.3 million.



Natural Gas Prices ($/mcf)



Oil & NGL Prices ($/bbl)

Royalties and Operating Expenses

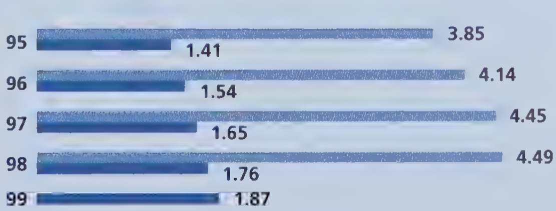
In 1999, overall royalties were $75.9 million or 19 percent of gross sales, compared to 15.8 percent in 1998. The increase is attributable to two factors; first the government formula of rising royalty rates with higher natural gas prices, and second, the increase in higher royalty rate crude oil and natural gas liquids volumes.

Operating costs in 1999 totalled $48.7 million, compared to 1998 costs of $37.0 million. This increase was due to the Company's substantial increases in production and field activity levels. On a unit cost basis, this increase was marginal. Operating expenses for natural gas were $0.24 per thousand cubic feet and crude oil and natural gas liquids operating costs were $4.99 per barrel. On a combined basis, operating expenses in 1999 were $1.87 per barrel of oil equivalent, just $0.11 more than in 1998. For the last five years, Rio Alto's operating costs have been less than half the industry average and it is anticipated the Company's 1999 costs will also be in that range.

Netbacks

($/unit)	1999	1998
Crude oil and natural gas liquids		
Selling price/bbl	**20.90**	14.29
Less:		
Royalties net of ARTC	**5.59**	3.78
Operating costs	**4.99**	4.88
Operating netback/bbl	**10.32**	5.63
Natural gas		
Selling price/mcf	**2.50**	1.98
Less:		
Royalties net of ARTC	**0.46**	0.29
Operating costs	**0.24**	0.23
Operating netback/mcf	**1.80**	1.46
Barrels equivalent		
Selling price/boe	**15.65**	12.14
Less:		
Royalties net of ARTC	**3.25**	2.18
Operating costs	**1.87**	1.76
Operating netback/boe	**10.53**	8.20

Revenue ($millions)



Operating Expenses ($/boe @ 6:1)
Industry Average
Rio Alto

General and Administrative Expenses

Again in 1999, general and administrative expenses remained in line with the Company's historic figures. General and administrative expenses averaged $0.47 per barrel of oil equivalent in 1999, compared to $0.46 in 1998. With 1999 general and administrative expense falling within the range of the previous five years, the Company expects once again to be well below the industry average, which was $0.72 in 1998.

In total, general and administrative expenses amounted to $11.9 million in 1999, up 26 percent from 1998 levels. This increase is a direct result of the Company's growth, which dictated more staff to support the higher production base and expanded exploration and development efforts. No general and administrative expenses were capitalized in 1999 or in 1998.

Interest Expense

Interest expense in 1999 increased 39 percent to $34.5 million, compared to $24.9 million in 1998. This increase in the Company's interest expense is due to a combination of higher interest rates and a higher total debt, which resulted from the execution of the large strategic acquisitions. The Company's unit debt servicing cost of $1.15 per barrel of oil equivalent remained well within Rio Alto's target range. The Company's operating costs plus debt servicing cost remained below the industry average operating cost alone. The overall interest rate increased to 6.0 percent in 1999 from 5.6 percent in 1998. Rio Alto's year-end debt, net of working capital, was $524.8 million in 1999, compared to $470.1 million in the previous year.

Depletion and Depreciation

The Company's depletion and depreciation rate rose six percent in 1999 to $3.63 per barrel of oil equivalent, but remained well below the industry average. The rate rise was the result of Rio Alto's aggressive acquisition program which increased finding and development costs in 1998. Total depletion and depreciation provision increased to $91.1 million, compared to $70.0 million in 1998, which is mainly attributable to higher production volumes.

Income Tax

No provision for current taxes was required in 1999 as the Company had sufficient tax pools available to shelter current tax. Rio Alto anticipates that sufficient tax pools will also be available to shelter any current tax that would otherwise be payable during 2000.

General & Administrative Expenses ($/boe @ 6:1)
Industry Average
Rio Alto

Depletion & Depreciation ($/boe @ 6:1)
Industry Average
Rio Alto

Cash Flow and Net Income

In 1999, cash flow from operations grew 61 percent to $218.2 million and cash flow per share rose 47 percent to $3.20. Net income grew a full 89 percent over 1998 levels, to reach $70.4 million, while earnings per share grew 72 percent to $1.03. These significant increases resulted primarily from the Company's higher production levels and strong commodity prices. The per share increments also reflect Rio Alto's larger shareholder base following the June 1999 share offering.

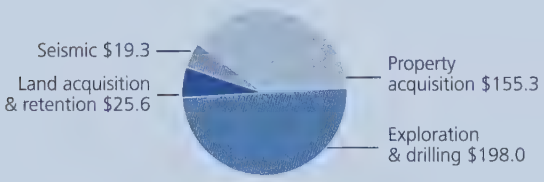
Cash Flow and Net Income

($millions, except per share amounts)	1999	1998	1997	1996	1995
Cash flow	**218.2**	135.6	108.8	71.2	39.7
Cash flow per share	**3.20**	2.18	2.05	1.49	0.90
Net income	**70.4**	37.2	36.1	22.9	7.9
Earnings per share	**1.03**	0.60	0.68	0.48	0.18

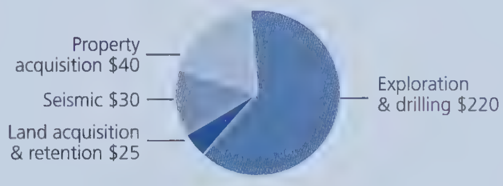
Capital Expenditures

Capital expenditures totalled $398.2 million in 1999, three percent higher than those of 1998. Of that total amount, $181 million was spent on land acquisition, $198 million was directed to exploration and drilling, and $19 million was used for seismic data acquisition. These expenditures were funded by cash flow (55 percent), new equity raised (25 percent) and bank debt (20 percent). For 2000, Rio Alto has set a capital budget of $315 million, of which 79 percent will be spent on exploration and development activities.

1999 Capital Expenditures ($millions)



2000F Capital Expenditures ($millions)



Liquidity and Capital Resources

At the end of 1999, Rio Alto had a minor working capital deficiency, resulting in a current ratio of 0.91:1. The Company's revolving bank loan capacity at December 31, 1999 was $655 million, with an unused amount of $138 million.

Risk Management

In its daily operations, Rio Alto assumes risks which include production operations, uncertainty of reserve size, availability of and access to markets, economic volatility and environmental issues.

Due to the consistent track record Rio Alto has achieved with its program in prior years, the Company's risk management strategy remained virtually unchanged in 1999 and will be continued in 2000. Rio Alto's active risk management program is supported by its skilled and experienced employees in both the head office and field locations, and by the Company's use of state-of-the-art, high-quality equipment at all facilities and wellsites. Rio Alto also maintains and replaces equipment regularly, to eliminate the possibility of incidents that result from wear and tear. Other important components of Rio Alto's risk management strategy include maintaining high working interests in all properties and using in-house expertise in producing and marketing natural gas and crude oil and natural gas liquids.

With a full-time employee responsible for all aspects of Rio Alto's risk management program, the Company is proactive regarding environmental and safety issues. Ongoing risk audits on all projects remain a key component of this process.

Management's Report

Management is responsible for all information presented in this annual report. The financial data contained throughout the report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial reports are properly maintained to facilitate the preparation of relevant and reliable financial information.

The Audit Committee of the Board of Directors, which is comprised of a majority of non-management directors, has reviewed the financial statements with management and PricewaterhouseCoopers LLP. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Richard T. Cones
President and
Chief Executive Officer

Doug K. Smith
Vice President,
Finance and Administration

February 29, 2000

Auditors' Report

To the Shareholders of Rio Alto Exploration Ltd.

We have audited the consolidated balance sheets of Rio Alto Exploration Ltd. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

February 29, 2000

Consolidated Balance Sheet

December 31 ($thousands)	1999	1998
Assets		
Current assets		
Accounts receivable	**$ 63,423**	$ 59,686
Inventory	**18,405**	20,580
	81,828	80,266
Property, plant and equipment (Notes 2 and 3)	**1,330,543**	1,023,511
	$ 1,412,371	$ 1,103,777
Liabilities And Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 81,323**	$ 45,875
Current portion of obligations under capital leases	**8,261**	3,678
	89,584	49,553
Long-term debt (Note 4)	**517,000**	500,830
Obligations under capital leases (Note 5)	**30,344**	16,007
Deferred income tax	**170,417**	115,711
Shareholders' equity		
Share capital (Note 6)	**395,451**	282,499
Retained earnings	**209,575**	139,177
	605,026	421,676
	$ 1,412,371	$ 1,103,777

Signed on Behalf of the Board,

Richard T. Cones

Director

N. Murray Edwards

Director

Consolidated Statement of Income and Retained Earnings

Years Ended December 31 ($thousands)	1999	1998
Revenue		
Oil and natural gas sales	**$ 392,343**	$ 247,507
Less: Royalties	**75,945**	39,017
	316,398	208,490
Expenses		
Production	**48,652**	36,987
Administration	**11,874**	9,408
Interest on long-term debt	**34,534**	24,902
Depletion and depreciation	**91,128**	69,988
	186,188	141,285
Income before taxes	**130,210**	67,205
Capital tax	**3,152**	1,569
Deferred income tax (Note 7)	**56,660**	28,428
	59,812	29,997
Net income (Note 8)	**70,398**	37,208
Retained earnings, beginning of year	**139,177**	101,969
Retained earnings, end of year	**$ 209,575**	$ 139,177

Consolidated Statement of Cash Flow

Years Ended December 31 ($thousands)	1999	1998
Cash Provided By Operating Activities		
Net income	**$ 70,398**	$ 37,208
Items not involving cash		
Deferred income tax	**56,660**	28,428
Depletion and depreciation	**91,128**	69,988
Funds provided from operations (Note 8)	**218,186**	135,624
Change in non-cash working capital related to operations	**10,175**	(19,950)
	228,361	115,674
Financing Activities		
Issue of share capital, net of expenses	**110,998**	104,172
Payment of obligations under capital lease	**(6,780)**	(3,530)
Increase in long-term debt and obligations under capital lease	**41,870**	170,830
	146,088	271,472
Investing Activities		
Acquisition of property, plant and equipment		
Acquisition of 764032 Alberta Ltd. (Note 2)	**–**	(86,791)
Crown land acquisition and retention	**(25,550)**	(24,644)
Seismic	**(19,328)**	(14,993)
Property acquisitions	**(157,737)**	(120,004)
Proceeds on disposition	**2,449**	1,035
Exploration and development	**(197,994)**	(142,195)
	(398,160)	(387,592)
Change in non-cash working capital related to investing	**23,711**	343
	(374,449)	(387,249)
Increase (decrease) in cash and cash equivalents	**–**	(103)
Cash and cash equivalents, beginning of year	**–**	103
Cash and cash equivalents, end of year	**$ –**	$ –
Supplemental disclosure of cash flow information:		
Interest paid	**$ 34,372**	$ 23,339
Capital tax paid	**$ 2,659**	$ 2,224

Notes to Consolidated Financial Statements

For the years ended December 31, 1999 and 1998 (tabular amounts in thousands of dollars, except where indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its general partnership.

b) Inventory

Inventory consists of pipe stock, deposits on equipment being manufactured and other production equipment that is held for use and possible resale. Inventory is valued at the lower of cost and replacement cost.

c) Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting wherein all costs associated with the exploration for and development of oil and gas reserves in Canada are capitalized. Costs capitalized include land acquisitions, geological and geophysical costs, rentals on undeveloped properties, costs of drilling productive and non-productive wells, lease and well equipment and overhead. Gains or losses are not recognized upon disposition of oil and gas properties unless they would significantly alter the rate of depletion.

The Company's exploration and production activities are conducted jointly with others and these consolidated financial statements reflect the Company's proportionate interest in such activities.

The costs related to petroleum and natural gas properties are depleted using the unit-of-production method, based on estimated proven oil and gas reserves as determined by the Company and independent engineers. Oil and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proven reserves and excludes the cost of undeveloped land. Gas plants and pipelines are depreciated over the estimated useful life of the facility.

The Company performs a ceiling test to ensure its petroleum and natural gas properties are carried at the lower of the capitalized cost and net recoverable value. Capitalized cost is calculated as the net book value of the related assets less deferred income tax. Net recoverable value is limited to the sum of the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, less estimated future general and administrative expenses, financing and restoration costs and income taxes. Oil and gas prices at December 31, 1999 of $30.28 per barrel of oil and $2.59 per thousand cubic feet of gas were used; there was a significant surplus. The Company annually reviews the costs associated with undeveloped properties to assess whether the costs will likely be recoverable.

d) Income taxes

The Company follows the tax allocation method of accounting for the tax effect of the timing differences between taxable income and income as recorded in the financial statements. Timing differences arise when, for income tax purposes, the Company deducts exploration and development expenditures and capital cost allowances in amounts differing from those charged to expense in the financial statements.

e) Stock option plan

The Company has a stock option compensation plan, which is described in Note 6. No expense is recognized under this plan when stock options are granted to directors and employees. Consideration paid by directors and employees on exercise of stock options is credited to share capital.

f) Revenue recognition

Oil and natural gas revenue is recognized in income when reserves are produced and sold.

g) Financial instruments

Financial instruments are used to hedge market risks related to commodity prices and interest rates. The Company does not use these instruments for trading or speculative purposes. Amounts received or paid under interest rate swaps are recognized in interest expense on an accrual basis, while gains or losses on commodity price instruments are included in revenue with the sale of the related production.

h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

i) Comparative figures

Certain comparative figures have been restated to conform to the presentation adopted in the current year.

2. ACQUISITION OF 764032 ALBERTA LTD.

Pursuant to a share sale agreement during 1998, the Company acquired all of the issued and outstanding shares of 764032 Alberta Ltd. ("764032"), a company engaged in the business of oil and gas exploration and development. The acquisition has been accounted for using the purchase method and the results of operations of 764032 have been included in these financial statements from the date of the acquisition.

Net assets acquired	
Property, plant and equipment	$ 86,791
Financed by	
Cash	$ 86,791

3. PROPERTY, PLANT AND EQUIPMENT

	1999	1998
Petroleum and natural gas properties	**$ 1,633,193**	$ 1,235,033
Less: accumulated depletion and depreciation	**(302,650)**	(211,522)
	$ 1,330,543	$ 1,023,511

Management has estimated the salvage value of the equipment to be in excess of the abandonment cost of the petroleum and natural gas properties and, accordingly, no provision has been recorded in the accounts for future removal and site restoration costs.

Undeveloped properties not subject to depletion amounted to $269,926,000 at December 31, 1999 (1998 - $222,398,400). Petroleum and natural gas properties in the amount of $186,406,300 (1998 - $192,232,300) have no tax base.

The Company did not capitalize any administrative expenses during 1999 and 1998.

4. LONG-TERM DEBT

	1999	1998
Revolving bank loans		
Bankers' acceptances	**$ 417,000**	$ 399,000
Interest rate swap (Note 9)	**100,000**	100,000
Prime loan	**–**	1,830
	$ 517,000	$ 500,830

As at December 31, 1999, the Company has a total unsecured credit facility of $655,000,000 (1998 - $575,000,000) comprised of a $600,000,000 revolving credit facility and a $55,000,000 operating demand facility. The bank facility provides that borrowings may be made by way of operating advances, prime loans or bankers' acceptances which bear interest at the bank's prime rates or at money market rates plus a stamping fee. The $600,000,000 revolving credit facility as well as the $55,000,000 standard operating facility are redetermined annually by September 30 based on the estimated future net revenues of oil and gas properties. If any shortfalls in the borrowing base arise, they are to be repaid during the following year. Principal payments are not anticipated in 2000.

The Company may not, amongst other things, dispose of material assets, pay dividends or redeem shares without the prior consent of its banks.

5. OBLIGATIONS UNDER CAPITAL LEASES

	1999	1998
Total obligations under capital leases	**$ 38,605**	$ 19,685
Less: current portion	**(8,261)**	(3,678)
	$ 30,344	$ 16,007

The obligations under capital leases bear interest at an average interest rate of 6.8% and are secured by the related assets.

Future minimum lease payments under capital leases are as follows:

2000	$ 10,686
2001	9,317
2002	9,029
2003	8,988
2004	6,891
	44,911
Amount representing interest	(6,306)
Total obligations under capital leases	$ 38,605

6. SHARE CAPITAL

Authorized

An unlimited number of preferred shares, issuable in series, designated as First Preferred Shares and Second Preferred Shares

An unlimited number of common voting shares

a) Issued and outstanding common shares

(Thousands of shares)	Shares	Stated Value
Balance, December 31, 1997	57,626	$ 176,468
Shares issued for cash		
Public offering	6,000	99,092
Options exercised	1,001	6,939
Balance, December 31, 1998	64,627	282,499
Shares issued for cash		
Public offering	5,000	102,575
Options exercised	1,285	10,377
Balance, December 31, 1999	70,912	$ 395,451

Pursuant to a public offering during 1999, the Company issued 5,000,000 common shares at a price of $21.00 per share for total proceeds of $105,000,000 before costs of the issue. Costs of the issue, net of associated income tax effects of $1,953,800, were $2,425,000 and have been recorded as a reduction of share capital.

Pursuant to a public offering during 1998, the Company issued 6,000,000 common shares at a price of $16.90 per share for total proceeds of $101,400,000 before costs of the issue. Costs of the issue, net of associated income tax effects of $1,859,300, were $2,307,700 and have been recorded as a reduction of share capital.

b) Under the Stock Option Plan, the Company may grant options to directors and employees for up to 6,514,632 common shares as approved by shareholders. The exercise price of each option equals the market price of the Company's common shares on the date of the grant. The options vest at a rate of 20% per year and are required to be exercised over a period not to exceed five years.

	Options	Weighted-Average Exercise Price
Outstanding, December 31, 1997	4,056,180	$ 7.66
Granted	1,729,150	$ 10.97
Exercised	(1,000,845)	$ 6.91
Cancelled	(77,215)	$ 7.78
Outstanding, December 31, 1998	4,707,270	$ 8.98
Granted	1,778,850	$ 14.91
Exercised	(1,284,780)	$ 8.08
Cancelled	(225,696)	$ 10.87
Outstanding, December 31, 1999	4,975,644	$ 11.32
Exercisable, December 31, 1999	914,840	
Exercisable, December 31, 1998	925,250	

Range of Exercise Prices	Number Outstanding	Average Remaining Contractual Life		Average Exercise Price	Number Exercisable		Average Exercise Price
$3.50 to $5.75	523,876	1.5 years	$	4.82	191,820	$	5.00
$7.05 to $8.45	1,066,890	1.9 years	$	8.29	373,900	$	8.30
$10.25 to $14.65	2,869,878	3.9 years	$	12.13	349,120	$	10.93
$16.95 to $22.45	515,000	4.6 years	$	19.71	–		–
	4,975,644	3.0 years	$	11.32	914,840	$	8.61

7. INCOME TAXES

Income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial income tax rates to income before taxes. The reconciliation of the combined statutory income tax rate and the effective income tax rate is as follows:

(%)	1999	1998
Statutory rate	**44.6**	44.6
Increase (decrease) in income taxes resulting from:		
Non-deductible crown royalties, lease rentals and depletion and depreciation	**25.2**	27.2
Resource allowance	**(26.3)**	(29.5)
Effective rate	**43.5**	42.3

The Company had the following estimated income tax deductions available:

	1999	1998
Canadian Oil and Gas Property Expense	**$ 337,593**	$ 298,117
Canadian Development Expense	**118,619**	76,885
Canadian Exploration Expense	**16,640**	25,941
Undepreciated Capital Costs	**290,287**	143,379
Total income tax deductions	**$ 763,139**	$ 544,322

8. COMMON SHARE DATA

Common share data, using the weighted average number of common shares outstanding of 68,154,720 (1998 - 62,118,028) is:

	1999	1998
Net income – basic	**$ 1.03**	$ 0.60
– fully diluted	*	*
Funds provided from operations – basic	**$ 3.20**	$ 2.18
– fully diluted	*	*

* The effect on net income per share and funds provided from operations per share is anti-dilutive in 1999 and 1998.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the consolidated balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities and long-term debt. The estimated fair value of the financial instruments approximates their carrying values.

The Company uses derivative financial instruments to manage its exposure to price fluctuations on hydrocarbon transactions and interest rates. All transactions of this nature entered into by the Company are related to an underlying physical or financial position, firm commitment or to future oil and gas production. The Company does not use derivative financial instruments for trading or speculative purposes. The counterparties to these transactions are major financial institutions and therefore the risk of credit loss is considered remote.

The net effect of natural gas and oil and natural gas liquids forward swaps is to convert specific sales contracts from indexed market prices to fixed prices in order to hedge against declining prices. The outstanding commodity derivative instruments and related unrealized gain and loss are as follows:

Nature of Hedge	Volume Hedged		Pricing	Term	Unrealized Gain/(Loss)
AECO fixed	5,000 gj/d	$	2.54	October 2003	(2,730)
AECO fixed	5,000 gj/d	$	2.71	October 2002	(1,019)
NYMEX fixed	10,000 mmbtu/d	US $	3.05	March 2000	950
WTI fixed	1,500 bbls/d	US $	24.05	March 2000	(91)
WTI fixed	1,000 bbls/d	US $	21.50	December 2000	(292)
Unrealized loss					(3,182)

At December 31, 1999, the Company had outstanding a swap of interest payments on $100,000,000 of the revolving bank loans into a fixed interest rate of 5.08% plus stamping fee. The swap matures on March 30, 2001 at which time the bank has a one day option to extend the swap until March 31, 2004. The estimated fair value of the interest rate swap at December 31, 1999 was a gain of $53,000.

Five Year Review

Financial ($thousands, except per share amounts)	1999	1998	1997	1996	1995
Revenue					
Oil and gas sales	**392,343**	247,507	186,812	116,026	71,594
Royalties, net of ARTC	**75,945**	39,017	35,062	15,227	7,281
	316,398	208,490	151,750	100,799	64,313
Expenses					
Production	**48,652**	36,987	24,813	17,065	11,870
Administration	**11,874**	9,408	6,887	4,776	3,614
Interest	**34,534**	24,902	10,037	6,982	8,686
Depletion and depreciation	**91,128**	69,988	45,376	35,502	26,970
	186,188	141,285	87,113	61,325	51,140
Income before income taxes	**130,209**	67,205	64,637	39,474	13,173
Capital taxes	**3,152**	1,569	1,182	742	437
Deferred income tax	**56,660**	28,428	27,316	15,881	4,796
Net income	**70,398**	37,208	36,139	22,851	7,940
Per share	**1.03**	0.60	0.68	0.48	0.18
Cash flow	**218,186**	135,624	108,831	71,234	39,706
Per share	**3.20**	2.18	2.05	1.49	0.90
Balance sheet information					
Capital expenditures, net	**398,160**	387,592	403,997	120,221	66,787
Total assets	**1,412,371**	1,103,777	763,061	372,380	259,986
Long-term debt, net of working capital	**524,756**	470,117	336,090	121,563	99,135
Shareholders' equity	**605,026**	421,676	278,437	159,390	109,335
Weighted average shares outstanding (thousands)	**68,155**	62,118	53,075	47,961	44,322
Operating					
Production					
Natural gas (mcf/d)	**365,100**	299,600	225,300	164,700	128,600
Oil and NGLs (bbls/d)	**7,860**	6,257	2,825	1,501	1,105
Average natural gas price ($/mcf)	**2.50**	1.98	2.01	1.72	1.37
Average oil and NGLs price ($/bbl)	**20.90**	14.29	22.02	22.53	19.99
Operating costs combined ($/boe @ 6:1)	**1.87**	1.76	1.65	1.54	1.41
Reserves - proven plus probable					
Natural gas (bcf)	**1,520**	1,263	950	505	384
Oil and NGLs (mbbls)	**53,454**	40,942	27,949	6,177	4,185
Wells drilled					
Gross	**110**	148	189	108	113
Net	**100.9**	131.3	169.1	96.0	98.8
Land holdings (thousands of acres)					
Gross	**3,595**	3,009	2,584	1,904	1,657
Net	**3,111**	2,523	2,064	1,444	1,225

1999 Corporate Information

Directors

John A. Brussa
Partner
Burnet, Duckworth & Palmer

Richard T. Cones
President & Chief Executive Officer
Rio Alto Exploration Ltd.

N. Murray Edwards
President
Edco Financial Holdings Ltd.

Robert M. Shaunessy
Chairman
Rio Alto Exploration Ltd.

Lloyd C. Swift
President
Square Butte Resources Inc.

Officers and Senior Management

Paul Bourget
Manager, Production
Northeast/Northwest Alberta

George Clutton
Area Superintendent,
Northwest Central and South Alberta

Richard T. Cones, P. Eng.
President & Chief Executive Officer

Lavonne Dubois, P. Land
Manager, Land

Luis M. Ferreira, P. Eng.
Vice President, Marketing & Production

Liz Ganton
Manager, Corporate Resources

Don C. Klapko
Vice President, Operations

Andrew G. Krancz
Area Superintendent,
Northeast Alberta

Emile Lavallee
Area Superintendant,
Grande Prairie Area

Brian J. Moss, PhD, P. Geol.
Vice President, International

Dan McKinnon
Manager, Facilities & Operations Engineering

Murray R. Nunns, P. Geol.
Sr. Vice President, Exploration and Development

Doug Schmidt
Manager, Marketing

Doug K. Smith, C.A.
Vice President, Finance & Administration

Ken J. Stecyk, P. Eng.
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Manager, Corporate Development

Bruce R. Wilson, P. Eng.
Manager, Production
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Rob E. Wollmann
Manager, Exploration

Dwayne G. Woychuk, P. Eng.
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Registrar & Transfer Agent

CIBC Mellon Trust Company

Bankers

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Canadian Imperial Bank of Commerce
Bank of Montreal
Toronto Dominion Bank
Bank One Canada

Evaluation Engineers

NRG Engineering Ltd.

Stock Exchange Listing

Toronto Stock Exchange
Symbol: RAX

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